

## Message Text

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ACTION EUR-12

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TAGS: PINT, PGOV, EGEN, UK

SUBJECT: THE LABOR GOVERNMENT AND DEFENSE SPENDING

REF: (A) LONDON 11298; (B) LONDON 14019

SUMMARY - THE WILSON GOVERNMENT WILL CONTINUE TO RESIST FURTHER REDUCTIONS IN DEFENSE SPENDING, BUT DETERIORATION OF THE ECONOMY, COUPLED WITH RISING SENTIMENT WITHIN THE LABOR PARTY FOR FURTHER DEFENSE CUTS, IS EXPECTED TO SHARPLY INCREASE PRESSURES ON THE GOVERNMENT TO REDUCE PUBLIC EXPENDITURE, INCLUDING DEFENSE. IT SEEMS LIKELY THE GOVERNMENT WILL ULTIMATELY BE FORCED TO INCLUDE DEFENSE IN ITS BUDGETARY CUTS IN ORDER TO MAKE REDUCTIONS ELSEWHERE POLITICALLY ACCEPTABLE. END SUMMARY.

1. FOLLOWING THE DEFENSE REVIEW EXERCISE, THE WILSON GOVERNMENT HAS SUCCESSFULLY RESISTED LEFT-WING LABOR PARTY PRESSURES FOR FURTHER REDUCTIONS IN DEFENSE SPENDING, WHILE HOLDING BACK ON SOCIAL SERVICE AND INDUSTRIAL INVESTMENT PROMISED IN THE PARTY MANIFESTO. IN PART ITS ABILITY TO DO SO WAS DICTATED BY THE CERTAINTY THAT IN LIMITED OFFICIAL USE

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PARLIAMENT IT COULD COUNT ON CONSERVATIVE SUPPORT TO

KEEP THE DEFENSE BUDGET AT PLANNED LEVELS. THIS PRACTICE, OF COURSE, ENTAILS A POLITICAL COST IN PARLIAMENTARY GOVERNMENT, AND THERE ARE SIGNS THE TORIES THEMSELVES WILL BE MORE ASSERTIVE IN DEMANDING QUID PRO QUO IN THE NEXT PARLIAMENT. ANTICIPATED BUDGETARY REDUCTIONS STEMMING FROM THE GOVERNMENT'S ANTI-INFLATION PROGRAM, TOGETHER WITH A CONTINUED LOW LEVEL OF ECONOMIC ACTIVITY IN THE SECOND HALF OF 1975 (REF A), IMPLY THAT THE GOVERNMENT MAY BE FORCED TO REDUCE DEFENSE SPENDING AS PART OF A MORE GENERAL REDUCTION IN PUBLIC OUTLAY.

2. THE UPCOMING ANNUAL LABOR PARTY CONFERENCE (SEPT 29-OCT 3 -- REF B) SEEMS VIRTUALLY CERTAIN TO PASS A RESOLUTION CALLING FOR DEFENSE CUTS (THE CONFERENCE AGENDA CONTAINS SEVEN SUCH RESOLUTIONS), PERHAPS BY THE TWO-THIRDS MAJORITY REQUIRED TO MAKE SUCH DECISIONS THEORETICALLY BINDING PARTY POLICY. LABOR GOVERNMENTS HAVE IN THE PAST IGNORED SUCH CONFERENCE DECISIONS, AND COULD NO DOUBT DO SO AGAIN IF THE ECONOMIC OUTLOOK WERE NOT SO BLEAK. UNDER PRESENT CIRCUMSTANCES, IT WOULD BE EXCEEDINGLY DIFFICULT FOR THE GOVERNMENT TO CARRY OUT GLOBAL BUDGET CUTS WITHOUT APPORTIONING SOME REDUCTIONS TO DEFENSE. SUCH ACTION WOULD BE REQUIRED TO MAKE MORE SUBSTANTIAL REDUCTIONS IN PLANNED SOCIAL PROGRAMS AND NATIONALIZATION SCHEMES PALATABLE TO THE PARLIAMENTARY LABOR PARTY.

3. IT IS PREMATURE TO FORECAST HOW LARGE A REDUCTION THE GOVERNMENT MIGHT BE FORCED TO MAKE ON THE DEFENSE SIDE, OR JUST HOW SUCH CUTS WOULD BE BORNE. IT IS NOT, HOWEVER, TOO EARLY TO REALIZE THAT THE ECONOMIC SITUATION WILL DICTATE REDUCED GOVERNMENT SPENDING. WHILE POLITICAL CONSIDERATIONS WILL LARGELY DETERMINE HOW THE BUDGETARY SCALPEL IS DIRECTED, THE FUNDAMENTAL MOTIVATION IS ECONOMIC. THE THE WILSON GOVERNMENT STILL SEEMS TO US TO BE WILLING TO PAY A RELATIVELY HEAVY POLITICAL COST TO PROTECT THE DEFENSE BUDGET. SLASHING MOST HEAVILY THE SOCIAL PROGRAMS WHICH MANY WOULD ARGUE ARE ALREADY SERIOUSLY UNDERFINANCED.

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